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GVNW

July 17, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

Dear Ms. Salas:

Enclosed are the original and sixteen (16) copies of the comments of GVNW Inc./Management in response to the Commission's Notice of Proposed Rulemaking in CC Docket No. 98-77.

Also enclosed is one copy of our comments to be stamped and returned in the enclosed self addressed stamped envelope.

Any questions regarding this filing may be directed to me at (503) 612-4400.

Sincerely,

Jeffry H. Smith

cc: Competitive Pricing Division
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)
)
Access Charge Reform for Incumbent) CC Docket No. 98-77
Local Exchange Carriers Subject to)
Rate-of-Return Regulation)

COMMENTS OF GVNW INC./MANAGEMENT

I. Introduction

GVNW Inc./Management (GVNW) is a management consulting firm which provides financial and regulatory consulting services to independent telephone companies. These comments focus on the impact that the issues raised in the Notice of Proposed Rulemaking (NPRM) may have on small LECs and, ultimately, on the provision of quality universal service at affordable prices throughout rural America. We have organized these comments to follow the presentation of the NPRM.

Summary of Comments

1. Any rule changes adopted by the Commission should not penalize small LECs by assigning exorbitant costs to the interstate billing and collection category.
2. The interstate expense adjustment should be assigned to the common line element.
3. Residual TIC dollars will remain for rate-of-return LECs after the proposed reallocations and could be recovered in the common line or a separate element.
4. Dual responsibility exists between federal and state regulators to ensure that LECs are able to recover embedded investments.

II. Rate Structure Modifications

A. Overview

Access charge reform in this Notice of Proposed Rulemaking represents one key aspect of what has been referred to as the Commission's trilogy of dockets that will significantly shape the national policy framework necessitated by the Telecommunications Act of 1996. The access reform issues addressed herein are interrelated to the universal service and local interconnection dockets. As the Commission considers access reform, it is vital to rate-of-return LECs that this deliberation include the important public policy issues surrounding the provision of "sufficient and predictable universal service mechanisms" as mandated in Section 254 (b) (5) of the Communications Act. The rules promulgated in one portion of the trilogy will impact the other portions, and vice versa. GVNW, on behalf of its client companies, has serious reservations about whether some of the decisions reached to date¹ "seeking to unleash the dynamic forces of competition" do indeed meet the objectives that Congress intended with the passage of the communications legislation. For non-price cap local exchange carriers, the access charge revenue stream represents, on average, twice the percentage of their total revenues as it does for an average regional Bell Operating Company.² In addition to creating wholesale and retail market segments, the Interconnection Order creates arbitrage potential for competitors to rebundle elements and avoid access charges. While there is much dispute surrounding certain provisions of the

¹ *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98, First Report and Order, 11 FCC Rcd 15499 (1996), Order on Reconsideration, CC Docket No. 96-98, 11 FCC Rcd 13042 (1996), *vacated in part sub. nom. Iowa Utils Bd. v. FCC*, 120 F.3d753 (8th Cir. 1997), cert.granted sub. nom. AT&T Corp. v. Iowa Utils. Bd., 118 S.Ct. 879 (1998).

² See Notice at paragraph 15. See also RBOC average access charge 29.9% of total revenue as compared to Rural Telephone Companies average of 59.7% of total revenue, Presentation at USTA Seminar on Interconnection, September 5, 1996, Calvin S. Monson, Strategic Policy Research, Inc.

interconnection rules, most parties agree with the FCC's statement in paragraph 9 of this NPRM *"that implicit subsidies embodied in the existing system of interstate access charges cannot be maintained indefinitely in their current form."*

In this context, it is essential that decisions reached with respect to access reform provide for adequate and compensatory cost recovery mechanisms for non-price cap local exchange carriers. In other words, for any access charge reforms to meet the requirements of the Communications Act, the current implicit subsidies embodied in existing access charge rates will need to be recovered, to the extent possible, through explicit means.

While the Commission contends that utilizing interstate access rates as a mechanism to subsidize rates for other services is not sustainable in a competitive marketplace, it is imprudent public policy to disregard the past commitments made to those carriers that have assisted in development of an ubiquitous public switched network. Changes to access rules that impede recovery would be unconstitutional

The unrecovered embedded costs of investment in a company's network facilities are real costs that will continue to be borne by the LECs. If LECs are not permitted to recover these costs, such actions would be confiscatory and subject to review under the Takings Clause. Established precedent in this regard may be found in Duquesne Light Co. v. Barasch, 488 U.S. 299, 308-10 (1989); and FPC v. Hope Natural Gas Co., 320 U.S. 591, 602 (1944). Any changes to access rates that result in revenues that do not recover total costs associated with past investment decisions reviewed by regulators do not comport to the intent of the Communications Act of 1996. Any Commission decisions to

prevent a LEC from a compensatory return would violate the LEC's due process under the law and undermine its legitimate, investment-backed expectations. Such interference with (LEC) property rights in a manner that undermines such expectations constitutes a taking as found in Penn Central Transp. Co. v. New York City, 438 U.S. 104, 124 (1978).

A dual responsibility exists between the federal regulators and state regulators to ensure recovery of embedded investments

Today, access charges recover both the costs associated with the categories of service reflected in Part 69 of the rules, as well as the means by which to compensate LECs for the costs related to developing, maintaining, and updating the ubiquitous public switched network. If the Commission ultimately adopts access charge reductions (e.g., utilizing forward looking economic cost methodologies rather than actual investment), an obligation still remains under the Act to provide for the remaining costs and permit the recovery for these costs of ubiquity for all existing rate-of-return LECs. The Commission may find that shifting implicit support to an explicit basis has a chilling effect on rural infrastructure investment, if some of the replacement support becomes portable to competitors.

If the Commission were to change access rules without regard to the fact that the Part 36 separations rules still allocate a portion of these ubiquity costs to the interstate jurisdiction, they would not be permitting compensatory recovery to the incumbent local exchange carrier. If the cost of this ubiquity is not to be included with the other network

elements, it will be necessary and appropriate to include these costs as a separate element. To this end, we have included below a proposed Part 69 rule change related to establishing as a separate access element the cost of universal availability.

Add as Part 69.130 Network Ubiquity Policy Element

A charge that is expressed in dollars and cents shall be assessed upon all presubscribed interexchange carriers by a local telephone company for the provision of universal availability and network ubiquity on the basis of presubscribed lines. This element is calculated as the difference between the total interstate access revenue requirement and the sum of the revised access charge elements for the same base period, with historical demand levels, as prescribed in CC Docket No. 98-Xxx. NOTE: Concomitant changes would be required in Part 69.4 and throughout subparts D and E to enable such a change to occur.

While the states will obviously need to be involved in ensuring that embedded costs that are jurisdictionally allocated to intrastate be permitted recovery, the FCC cannot avoid its responsibility to provide for adequate interstate recovery.

While Congress intended to promote competitive entry to telecommunications markets with the passage of the Telecommunications Act of 1996, there was no intent to deny incumbent local exchange carriers the ability to recover costs incurred in good faith.

II. B. Common Line

GVNW is on record in earlier proceedings with proposing to modify the current common line rate structure. We continue to support changing the recovery of the non-traffic sensitive portion of the local loop from a per-minute basis to a bulk-billed basis, assessed to and paid by interexchange carriers. We agree, but not to the extent as proposed in the NPRM to increase the subscriber line charge cap for secondary residential

lines and for multiline businesses in rural areas. Data previously placed on the record³ has indicated clearly that increasing the SLC and implementing PICCs will still NOT recover the average interstate allocated common line costs for rural LECs. We recommend that the Commission limit the SLC increase for rate-of-return LECs to a level based on the neighboring price cap LEC's average multi-line business SLC or a national average based rate.

II.C. Local Switching

In paragraph 54 of the NPRM, the Commission proposes that rate-of-return LEC's be required to reassign all costs for line-side ports from the local switching category to the common line category.

Based on our initial evaluation, we are not aware of any factors that would preclude the Commission from adopting this rate structure change for rate-of-return companies. However, there are a number of factors that the Commission should consider in order to achieve an implementation that accomplishes the Commission's goals. Some of those factors to consider include the following:

1. The Commission did not prescribe the methodology for reassigning "all costs for line-side ports from the local switching category to the common line category".
 - a. If the Commission intended to use the same approach that was prescribed for price cap companies in Part 69.306(d), not all of the local

³ United States Telephone Association (USTA) Data Assessing the Impact of Access Regulations for Price Cap Companies on Non-Price Cap LECs (filed Dec. 16, 1997).

switching costs associated with the line side port investment will be shifted to the common line element. The Part 69 rules for assigning costs to common line element differ from the rules for assigning costs to the local switching element. For example, in the Part 69 allocation process the carrier's carrier access billing and collection expense is allocated in part to the local switching element as a result of the line side port investments being assigned to the local switching element. (See Part 69.407(b)) There is no assignment of the carrier's carrier access billing to the common line element. Consequently, the shift of the line port investment from local switching to common line will result in the unintended transfer of a portion of the carrier's carrier access billing expense to the transport and special access elements rather than to the common line element.

- b. An alternative method which the Commission may wish to consider is to assume a ratio of line side port costs to total local switching costs, then apply that ratio to the total local switching revenue requirement developed in Part 69 allocation process. The result would then be transferred from the switching element to the common line element for rate making and cost recovery purposes. This methodology is being used by many industry participants to evaluate the order of magnitude shifts from local switching to common line associated with this NPRM.
- c. Another alternative would be for the Commission to prescribe an algorithm for developing the line side port costs that would be shifted

from the switching element to the common line element. GVNW does not favor this approach because of the complexity involved and the increased opportunities for misinterpretation of prescribed procedures.

2. Another factor to consider for rate of return companies is how the local switching support received from USAC (Universal Service Administrative Company) would be treated. Currently Part 69.106(b) prescribes a base for calculating the switching rate using the revenue requirement for the Local Switching element, excluding any local switching support received by the carrier pursuant to Part 54.301. This treatment of the switching support combined with the approach for shifting the line port investment as prescribed for price cap companies could result in a negative base for calculating the local switching rate for certain rate of return companies. If the Commission were to adopt a 'bottom line' adjustment to shift the line port cost from switching to common line similar to the method described in 1(b) above, the Commission should clearly prescribe whether this calculation of the amount to be transferred is developed using the revenue requirement prior to the application of the switching support from Part 54.301, or if the calculation should be performed after the reduction for switching support.

GVNW does not specifically oppose this proposed change in rate structure. However, we have concerns about upward pressure this may cause on end user rates, and we are also concerned about the potential confusion that may result if the procedures for implementing these changes are not clearly addressed in the rules. Even though we do not

specifically oppose this change, we do not see any short term benefit of the change for the small rural rate-of-return companies. We ask the Commission to carefully consider the burdens associated with making this change compared to the limited benefits that may result from the change.

II. D. Local Exchange Carriers are Entitled to Recovery of Remaining Costs Assigned to the Transport Interconnection Charge (TIC)

Local exchange carriers should be permitted to realize a full recovery of the costs that have been allocated to the interstate jurisdiction through the application of the Commission's Part 36 Separation Rules and the current Part 69 Access Rules. GVNW recommends that the Commission review the TIC issue for non-price cap companies as having two piece parts.

The first being the eight types of costs identified by the Commission that could and should be reassigned to different, and in this competitive access environment, more appropriate elements. The Transport Interconnection Charge (TIC) was created as a part of the interim transport rate structure in the Commission's proceeding designated as CC Docket No. 91-213. Under these rules, switched transport rates were based in large part on the special access rates applicable at that time. The TIC represented the residual amount that enabled a LEC to recover the same level of total transport element revenue under the revised structure as was received under the prior rules.

The second piece, that related to previous public policy decisions, should be permitted recovery via either the common line element as proposed or a new public policy recovery mechanism as we have identified on page 5.

III. Other Issues

A. General Support Facilities Costs

GVNW opposes the proposed change in paragraph 82 of the NPRM related to allocating General Support Facilities (GSF) to the billing and collection category. There is a significant difference in the way most small rural local exchange carriers' provision the toll billing and collection service compared to the price cap companies. While the price cap companies primarily use their own personnel and computers for providing the toll billing service, the small rural rate-of-return companies use service bureaus for the majority of the work associated with the toll billing service. This difference in the cost of provisioning has a significant impact on the way costs are allocated to the billing and collection category in the Part 69 process.

There have been several changes to the Commission's rules that, industry wide, have resulted in reductions to the costs being allocated to the interstate billing and collection category. There has been a misperception, however, that this reduction has occurred for the rate of return companies.

The changes which resulted in the significant industry wide shift came as a result of changes to the Jurisdictional Separations rules for Central Office Equipment, and the change resulting from the conforming of the separations rules and access charge rules to the new Part 32 accounting rules. Specifically, the collapsing of central office equipment

categories that removed the specific identification of certain costs that were allocated to the billing and collection category (automatic recording equipment), and the elimination of the detailed land and building studies resulted in the shift of costs formerly assigned to the billing and collection category to the other access elements and the interexchange category. These changes resulted in a significant shift in costs out of the billing and collection category. The change in the method of allocating corporate expenses, specifically going from a wage based allocation to an expense based allocation, created a large shift of costs into the billing and collection category for those small rural carriers who provision the toll billing service with heavy reliance on service bureaus. The payments to the service bureaus had no impact on corporate operations under the old wage-based allocation, but a significant impact with the expense-based allocation. For most of our client companies, the net impact of these changes was an increase in the allocation of cost to interstate billing and collection.

This increased allocation to the interstate billing and collection category was further exacerbated when the Commission instituted a 5% benchmark on the other billing and collecting cost assignment to the interstate common line element. Prior to the conformance of the separations and access charge rules, a user count was used to determine that amount of other billing and collection costs that would be assigned to the common line element. The adoption of the limitation (benchmark) resulted in more costs being shifted to the billing and collection category.

Another change to the other billing and collection rules went into effect in mid year 1997. This change results in approximately 28 1/3% of the other billing and collection

costs being assigned to the interstate billing and collection category. Based on 1993 information provided to the commission in its USF data request in CC Docket No. 80-286, there were over two hundred small companies that had costs assigned to interstate billing and collection that exceeded their interstate billing and collection revenues. In other words, they were losing money on the provision of interstate billing and collecting. The 1997 rule change combined with the proposed GSF rule change would impact the ability of a small rural LEC to recover their cost of provisioning the toll billing for interexchange carriers. Exhibit A shows the impact of these changes on a large number of our client companies, with a summary of the key numbers from Exhibit A as follows:

<u>Interstate Billing & Collection Revenue Requirements</u>					
NECA Code	Company Name	Base 1996 Rules	With OB&C & Prop. GSF	Change	% Change
1	200259 Hardy Telephone Company	\$61,096	\$74,411	\$13,315	21.79%
2	340984 Cass Telephone Company	\$50,787	\$103,412	\$52,625	103.62%
3	341003 Egyptian Telephone Cooperative	\$69,375	\$134,239	\$64,864	93.50%
4	341032 Home Telephone Company	\$19,485	\$41,668	\$22,183	113.85%
5	341045 Leaf River Telephone Company	\$8,541	\$33,164	\$24,623	288.29%
6	341058 Montrose Mutual Telephone Company	\$12,704	\$32,328	\$19,624	154.47%
7	341025 Shawnee Telephone Company	\$67,377	\$89,932	\$22,555	33.48%
8	351105 Ayrshire Telephone Company	\$5,511	\$10,311	\$4,800	87.10%
9	381637 West River Telecommunications	\$104,063	\$213,629	\$109,566	105.29%
10	421865 Citizens Telephone Company	\$44,131	\$76,694	\$32,563	73.79%
11	421901 Kingdom Telephone Co	\$36,736	\$65,869	\$29,133	79.30%
12	442066 Dell Telephone Coop. (Tx)	\$13,181	\$26,023	\$12,842	97.43%
13	452226 Midvale Telephone Exch-Az	\$12,044	\$18,435	\$6,391	53.06%
14	453334 Table Top Telephone Company, Inc.	\$63,854	\$101,785	\$37,931	59.40%
15	462196 Peetz Cooperative Tele. Co.	\$6,491	\$7,451	\$960	14.79%
16	472213 Albion Telephone Company	\$27,129	\$50,459	\$23,330	86.00%
17	472220 Filer - Idaho	\$32,055	\$42,712	\$10,657	33.25%
18	472226 Midvale Telephone Exch, Id	\$11,106	\$14,341	\$3,235	29.13%
19	472232 Rockland Telephone Company	\$11,929	\$22,304	\$10,375	86.97%
20	472233 Rural Telephone Co	\$8,772	\$18,621	\$9,849	112.28%
21	482235 Blackfoot Telephone Cooperative	\$68,705	\$148,550	\$79,845	116.21%
22	482244 Lincoln Telephone Company	\$29,892	\$41,202	\$11,310	37.84%
23	482247 Nemont Telephone Coop.	\$75,665	\$172,693	\$97,028	128.23%
24	482251 Range Telephone Coop	\$49,254	\$80,583	\$31,329	63.61%

**Interstate Billing & Collection Revenue
Requirements**

NECA Code	Company Name	Base 1996 Rules	With OB&C & Prop. GSF	Change	% Change
25	482254 Southern Montana	\$12,082	\$33,137	\$21,055	174.27%
26	482257 Triangle Telephone Cooperative	\$65,629	\$148,146	\$82,517	125.73%
27	483308 Clark Fork Telecommunications	\$80,492	\$118,556	\$38,064	47.29%
28	483310 Central Montana Communications	\$53,915	\$121,897	\$67,982	126.09%
29	492066 Dell Telephone Coop. (Nm)	\$8,986	\$14,716	\$5,730	63.77%
30	492259 Baca Valley Telephone	\$41,789	\$91,628	\$49,839	119.26%
31	492272 Roosevelt County Telephone	\$99,564	\$120,536	\$20,972	21.06%
32	502277 Central Utah Telephone Co,	\$6,148	\$15,286	\$9,138	148.63%
33	502278 Emery Telephone Company	\$40,445	\$63,322	\$22,877	56.56%
34	502287 Uintah Basin Telephone Association	\$40,536	\$65,095	\$24,559	60.59%
35	503032 Bear Lake Communications	\$6,381	\$11,607	\$5,226	81.90%
36	512251 Range Wyoming	\$131,103	\$219,378	\$88,275	67.33%
37	512291 Dubois Telephone Exchange	\$46,075	\$61,182	\$15,107	32.79%
38	522412 Ellensburg Telephone Company	\$218,882	\$349,097	\$130,215	59.49%
39	522453 Yelm Telephone Company	\$167,162	\$260,681	\$93,519	55.95%
40	532226 Midvale Telephone Exch-Or	\$6,125	\$7,783	\$1,658	27.07%
41	532359 Beaver Creek Telephone Company	\$87,857	\$127,610	\$39,753	45.25%
42	532362 Canby Telephone Association	\$0	\$0	\$0	
43	532363 Clear Creek Mutual Telephone Company	\$74,999	\$91,156	\$16,157	21.54%
44	532364 Colton Telephone Company	\$16,935	\$31,210	\$14,275	84.29%
45	532369 Eagle Telephone System, Inc.	\$11,613	\$18,351	\$6,738	58.02%
46	532371 Cascade Utilities	\$104,875	\$171,282	\$66,407	63.32%
47	532376 Helix Telephone Company	\$6,182	\$21,504	\$15,322	247.85%
48	532378 Trans-Cascades	\$2,796	\$7,368	\$4,572	163.52%
49	532383 Molalla Telephone Company	\$52,530	\$96,085	\$43,555	82.91%
50	532384 Monitor Cooperative Telephone Company	\$19,246	\$32,530	\$13,284	69.02%
51	532387 Nehalem Telephone And Telegraph	\$37,372	\$60,108	\$22,736	60.84%
52	532388 North-State Telephone Company	\$9,957	\$12,484	\$2,527	25.38%
53	532389 Oregon Telephone Corporation	\$23,408	\$38,796	\$15,388	65.74%
54	532390 Oregon-Idaho Utilities, Inc.	\$37,063	\$56,180	\$19,117	51.58%
55	532392 Pine Telephone System, Inc.	\$24,040	\$43,188	\$19,148	79.65%
56	532393 Pioneer Telephone Cooperative	\$139,968	\$204,841	\$64,873	46.35%
57	532397 Scio Mutual Telephone Association	\$28,919	\$41,006	\$12,087	41.80%
58	542332 Ponderosa	\$45,081	\$96,404	\$51,323	113.85%
59	542338 Sierra Telephone Company, Inc.	\$218,169	\$345,822	\$127,653	58.51%
60	542339 Siskiyou Telephone	\$0	\$0	\$0	
61	552220 Filer - Nevada	\$21,734	\$31,218	\$9,484	43.64%
62	552233 Rural Telephone Company	\$11,149	\$19,428	\$8,279	74.26%
63	552349 Churchill County	\$303,112	\$429,550	\$126,438	41.71%
64	552351 Lincoln County Telephone	\$15,010	\$32,485	\$17,475	116.42%
65	552356 Rio Virgin Telephone Co.	\$121,333	\$175,652	\$54,319	44.77%
66	613001 Arctic Slope Telephone Cooperative	\$11,866	\$40,969	\$29,103	245.26%
67	613003 Bristol Bay Telephone Cooperative Inc	\$29,382	\$54,766	\$25,384	86.39%
68	613004 Bush-Tell Inc.	\$4,705	\$56,533	\$51,828	1101.55%
69	613006 Copper Valley Telephone Cooperative	\$58,072	\$106,271	\$48,199	83.00%
70	613007 Cordova Telephone Cooperative	\$26,699	\$60,942	\$34,243	128.26%
71	613011 Interior Telephone Company Inc.	\$66,855	\$105,410	\$38,555	57.67%

**Interstate Billing & Collection Revenue
Requirements**

NECA Code	Company Name	Base 1996 Rules	With OB&C & Prop. GSF	Change	% Change
72	613016 Mukluk Telephone Company	\$19,706	\$40,628	\$20,922	106.17%
73	613018 Nushagak Telephone Cooperative	\$29,987	\$36,045	\$6,058	20.20%
74	613019 Otz Telephone Cooperative	\$22,778	\$75,434	\$52,656	231.17%
75	613023 United Utilities	\$32,863	\$104,130	\$71,267	216.86%
Total		\$3,631,458	\$6,188,249	\$2,556,791	70.41%

We ask the Commission to take a careful look at the difference in how most small rate-of-return companies provision the toll billing service and adopt rules that don't unjustly penalize them by assigning exorbitant costs to the interstate billing and collection category.

III.D. Other Modification to the Part 69 Rules

In paragraph 92 of the NPRM, the Commission asked if it should make other modifications to the cost allocation rules for rate-of-return LEC's to accommodate any of the proposed changes or to update the rules in other respects. GVNW has several suggestions for the Commission to consider in updating the Part 69 Rules.

Application of Federal Support to Reduce Interstate Access Costs

In the Commission's rules adopted in the access reform for price cap companies, the Commission clearly addressed how local switching support and long term support received from the new universal service fund are to be used to reduce the interstate access revenue requirements for developing rates. The local switching support is addressed in

Part 69.106(b) and the long term support is addressed in Part 69.502(c). It appears from the Orders that the Commission intended a similar treatment for the High Cost loop support payments that are intended to recover the revenue requirement related to the interstate expense adjustment that is assigned to the Universal Service Fund Element in Part 69.413. It is not clear in the rules that the high cost loop support payments from USAC are used to reduce the cost assigned to the Universal Service Fund Element, rather, it appears from Part 69.603(c) that the revenue requirement and related functions for obtaining recovery are assigned to USAC. We ask the Commission to consider some changes in the Part 69 rules that will clarify the treatment, and reduce some of the potential problems that may occur when an alternative support program is developed that will not separate the loop support payments between the high cost portion and the long term support portion.

Our suggestion is to move the interstate expense adjustment into the common line element just like it was done prior to the establishment of the Universal Service Fund Element in 1989. The High Cost loop support payments received from USAC would then be used to reduce the Common Line element revenue requirement in the same way that the long term support payments are treated. Following are specific wording changes to Part 69 for your consideration:

Part 69.413 Universal service fund expenses

Expenses allocated to the interstate jurisdiction pursuant to Parts 36.631 and 36.641 shall be assigned to the Carrier Common Line Element, ~~until March 31, 1989. Beginning April 1, 1989, such expenses shall be assigned to the Universal Service Fund Element.~~

Part 69.502(c)

The portion of per-line support that carriers receive pursuant to Part 54.303, and the high cost loop support received pursuant to Part 69.603(c).

Allocation of Account 6540

In RAO Letter 27, the Commission clarified that the contributions to the federal universal service fund should be recorded in Account 6540 Access expense. In the Universal Service Order in CC Docket No. 96-45, the Commission clearly indicated that the contribution to the federal universal service fund should be recovered through interstate rates. Currently, the Part 69 rules assign Account 6540 to the interexchange category. We ask the Commission to correct this rule to assign the portion of Account 6540 related to the contribution to the federal fund to the common line element. Most small companies do not provide any interexchange services. Consequently, the assignment of any portion of the contribution to the interexchange category would result in no opportunity for recovery. If it is the Commission's intent to assign any portion of the contribution to the federal fund to a service other than common line, the methodology should be clearly prescribed. Following are our proposed wording changes for this rule:

Part 69.401(e)

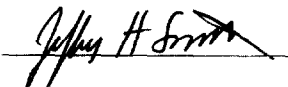
Plant Non Specific Operations Expense in Account 6540 shall be assigned to the interexchange category; except that portion related to the contribution to the federal universal service fund which shall be assigned to the common line element.

CONCLUSION

It appears clear that a primary objective of the Commission in these proceedings is to initiate significant reductions in local exchange carrier access rate levels. Parties might argue that, at best, competition will emerge unevenly among geographic areas, services, and customer classes. We question whether mandated reductions to access mechanisms, prior to rational competitive entry, was the Congressional intent for rural areas of the country. At least for rate of return LECs, access rate levels prevailing today are reflective of the costs attributable to providing UBIQUITOUS high quality services. To maintain this Congressionally-mandated level of universal service, any reductions in access pricing must be accompanied by an assured level of sufficient and predictable support from explicit funding sources. It is only through providing this sufficient support that the Commission will enable the continuation of affordable telecommunications service to rural Americans.

Respectfully submitted

GVNW Inc./Management

By: 

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Analysis of Changes to Interstate Billing & Collection Costs

Purpose:

The purpose of this analysis is to illustrate the significant shift in costs to the interstate Billing and Collection (B&C) category in Part 69 as a result of the recent changes in Part 36 related to Other Billing and Collection (OB&C) and the impact of the proposed change to allocate a portion of General Support Facilities (GSF) to the B&C category in Part 69 for rate of return companies.

Description:

Interstate B&C Rev. Req.

1996 Rules Base - The 1996 Rules Base column shows the total cost assigned to the interstate Billing & Collection category in the 1996 actual cost study.

With OB&C Rule Change - This column reflects the total costs that are assigned to the Part 69 Billing and Collection category using the new OB&C rules applied to the 1996 costs. (Note that this change went into effect mid year 1997.)

With OB&C & Prop. GSF - This Column reflects the total costs that are assigned to the Part 69 Billing and Collection category using the new OB&C rules and the proposed rules in this access reform proceeding for allocating General Support Facilities (GSF). The ratio of the adjusted big 3 expense was calculated for each of the companies in this exhibit. This was then applied to the portion of the GSF that was related to Land, Buildings, Furniture and Office equipment, and General-Purpose computers. For purposes of this analysis we used 90% of GSF as a representative portion to cover these investments.

Change From Base Year

With OB&C Rule Change - This column compares the costs with the OB&C change to the base costs for 1996.

With OB&C & Prop. GSF - This column compares the costs with the OB&C change combined with the proposed GSF change to the base costs for 1996.

% Change From Base Year

With OB&C Rule Change - This column computes the percentage change in costs assigned to the interstate Billing and Collection category from implementing the OB&C rule change.

With OB&C & Prop. GSF - This column computes the percentage change in costs assigned to the interstate Billing and Collection category from implementing the OB&C rule change combined with the proposed change in GSF.

Analysis of Changes to Interstate Billing & Collection Costs

NECA Code	Company Name	<u>Interstate B&C Rev. Req.</u>			<u>Change From Base Year</u>		<u>% Change From Base Year</u>	
		<u>1996 Rules Base</u>	<u>With OB&C Rule Change</u>	<u>With OB&C & Prop. GSF</u>	<u>With OB&C Rule Change</u>	<u>With OB&C & Prop. GSF</u>	<u>With OB&C Rule Change</u>	<u>With OB&C & Prop. GSF</u>
1	200529 Hardy Telephone Company	\$61,096	\$58,583	\$74,411	(\$2,513)	\$13,315	-4.11%	21.79%
2	340984 Cass Telephone Company	\$50,787	\$61,891	\$103,412	\$11,104	\$52,625	21.86%	103.62%
3	341003 Egyptian Telephone Cooperative	\$69,375	\$110,550	\$134,239	\$41,175	\$64,864	59.35%	93.50%
4	341032 Home Telephone Company	\$19,485	\$29,319	\$41,668	\$9,834	\$22,183	50.47%	113.85%
5	341045 Leaf River Telephone Company	\$8,541	\$14,596	\$33,164	\$6,055	\$24,623	70.89%	288.29%
6	341058 Montrose Mutual Telephone Company	\$12,704	\$27,284	\$32,328	\$14,580	\$19,624	114.77%	154.47%
7	341825 Shawnee Telephone Company	\$67,377	\$74,882	\$89,932	\$7,505	\$22,555	11.14%	33.48%
8	351105 Ayrshire Telephone Company	\$5,511	\$6,902	\$10,311	\$1,391	\$4,800	25.24%	87.10%
9	381637 West River Telecommunications	\$104,063	\$142,568	\$213,629	\$38,505	\$109,566	37.00%	105.29%
10	421865 Citizens Telephone Company	\$44,131	\$64,241	\$76,694	\$20,110	\$32,563	45.57%	73.79%
11	421901 Kingdom Telephone Co	\$36,736	\$49,869	\$65,869	\$13,133	\$29,133	35.75%	79.30%
12	442066 Dell Telephone Coop. (Tx)	\$13,181	\$16,167	\$26,023	\$2,986	\$12,842	22.65%	97.43%
13	452226 Midvale Telephone Exch-Az	\$12,044	\$13,351	\$18,435	\$1,307	\$6,391	10.85%	53.06%
14	453334 Table Top Telephone Company, Inc	\$63,854	\$79,650	\$101,785	\$15,796	\$37,931	24.74%	59.40%
15	462196 Peetz Cooperative Tele. Co.	\$6,491	\$6,539	\$7,451	\$48	\$960	0.74%	14.79%
16	472213 Albion Telephone Company	\$27,129	\$35,552	\$50,459	\$8,423	\$23,330	31.05%	86.00%
17	472220 Filer - Idaho	\$32,055	\$35,004	\$42,712	\$2,949	\$10,657	9.20%	33.25%
18	472226 Midvale Telephone Exch, Id	\$11,106	\$11,834	\$14,341	\$728	\$3,235	6.56%	29.13%
19	472232 Rockland Telephone Company	\$11,929	\$15,430	\$22,304	\$3,501	\$10,375	29.35%	86.97%
20	472233 Rural Telephone Co	\$8,772	\$9,463	\$18,621	\$691	\$9,849	7.88%	112.28%
21	482235 Blackfoot Telephone Cooperative	\$68,705	\$115,689	\$148,550	\$46,984	\$79,845	68.39%	116.21%
22	482244 Lincoln Telephone Company	\$29,892	\$35,902	\$41,202	\$6,010	\$11,310	20.11%	37.84%
23	482247 Nemont Telephone Coop.	\$75,665	\$143,023	\$172,693	\$67,358	\$97,028	89.02%	128.23%
24	482251 Range Telephone Coop	\$49,254	\$56,506	\$80,583	\$7,252	\$31,329	14.72%	63.61%
25	482254 Southern Montana	\$12,082	\$22,778	\$33,137	\$10,696	\$21,055	88.53%	174.27%
26	482257 Triangle Telephone Cooperative	\$65,629	\$119,582	\$148,146	\$53,953	\$82,517	82.21%	125.73%
27	483308 Clark Fork Telecommunications	\$80,492	\$103,270	\$118,556	\$22,778	\$38,064	28.30%	47.29%
28	483310 Central Montana Communications	\$53,915	\$98,399	\$121,897	\$44,484	\$67,982	82.51%	126.09%

Analysis of Changes to Interstate Billing & Collection Costs

NECA Code	Company Name	<u>Interstate B&C Rev. Req.</u>			<u>Change From Base Year</u>		<u>% Change From Base Year</u>	
		<u>1996 Rules</u> <u>Base</u>	<u>With OB&C</u> <u>Rule Change</u>	<u>With OB&C</u> <u>& Prop. GSF</u>	<u>With OB&C</u> <u>Rule Change</u>	<u>With OB&C</u> <u>& Prop. GSF</u>	<u>With OB&C</u> <u>Rule Change</u>	<u>With OB&C</u> <u>& Prop. GSF</u>
29	492066 Dell Telephone Coop. (Nm)	\$8,986	\$10,201	\$14,716	\$1,215	\$5,730	13.52%	63.77%
30	492259 Baca Valley Telephone	\$41,789	\$63,798	\$91,628	\$22,009	\$49,839	52.67%	119.26%
31	492272 Roosevelt County Telephone	\$99,564	\$97,324	\$120,536	(\$2,240)	\$20,972	-2.25%	21.06%
32	502277 Central Utah Telephone Co,	\$6,148	\$10,038	\$15,286	\$3,890	\$9,138	63.27%	148.63%
33	502278 Emery Telephone Company	\$40,445	\$48,404	\$63,322	\$7,959	\$22,877	19.68%	56.56%
34	502287 Uintah Basin Telephone Association	\$40,536	\$45,690	\$65,095	\$5,154	\$24,559	12.71%	60.59%
35	503032 Bear Lake Communications	\$6,381	\$8,572	\$11,607	\$2,191	\$5,226	34.34%	81.90%
36	512251 Range Wyoming	\$131,103	\$178,409	\$219,378	\$47,306	\$88,275	36.08%	67.33%
37	512291 Dubois Telephone Exchange	\$46,075	\$47,658	\$61,182	\$1,583	\$15,107	3.44%	32.79%
38	522412 Ellensburg Telephone Company	\$218,882	\$250,081	\$349,097	\$31,199	\$130,215	14.25%	59.49%
39	522453 Yelm Telephone Company	\$167,162	\$190,219	\$260,681	\$23,057	\$93,519	13.79%	55.95%
40	532226 Midvale Telephone Exch-Or	\$6,125	\$6,535	\$7,783	\$410	\$1,658	6.69%	27.07%
41	532359 Beaver Creek Telephone Company	\$87,857	\$96,948	\$127,610	\$9,091	\$39,753	10.35%	45.25%
42	532362 Canby Telephone Association	\$0	\$0	\$0	\$0	\$0		
43	532363 Clear Creek Mutual Telephone Company	\$74,999	\$77,174	\$91,156	\$2,175	\$16,157	2.90%	21.54%
44	532364 Colton Telephone Company	\$16,935	\$26,984	\$31,210	\$10,049	\$14,275	59.34%	84.29%
45	532369 Eagle Telephone System, Inc.	\$11,613	\$13,757	\$18,351	\$2,144	\$6,738	18.46%	58.02%
46	532371 Cascade Utilities	\$104,875	\$119,572	\$171,282	\$14,697	\$66,407	14.01%	63.32%
47	532376 Helix Telephone Company	\$6,182	\$11,432	\$21,504	\$5,250	\$15,322	84.92%	247.85%
48	532378 Trans-Cascades	\$2,796	\$5,974	\$7,368	\$3,178	\$4,572	113.66%	163.52%
49	532383 Molalla Telephone Company	\$52,530	\$73,437	\$96,085	\$20,907	\$43,555	39.80%	82.91%
50	532384 Monitor Cooperative Telephone Company	\$19,246	\$21,934	\$32,530	\$2,688	\$13,284	13.97%	69.02%
51	532387 Nehalem Telephone And Telegraph	\$37,372	\$52,259	\$60,108	\$14,887	\$22,736	39.83%	60.84%
52	532388 North-State Telephone Company	\$9,957	\$11,338	\$12,484	\$1,381	\$2,527	13.87%	25.38%
53	532389 Oregon Telephone Corporation	\$23,408	\$30,659	\$38,796	\$7,251	\$15,388	30.98%	65.74%
54	532390 Oregon-Idaho Utilities, Inc.	\$37,063	\$36,595	\$56,180	(\$468)	\$19,117	-1.26%	51.58%
55	532392 Pine Telephone System, Inc.	\$24,040	\$31,698	\$43,188	\$7,658	\$19,148	31.86%	79.65%
56	532393 Pioneer Telephone Cooperative	\$139,968	\$169,051	\$204,841	\$29,083	\$64,873	20.78%	46.35%

Analysis of Changes to Interstate Billing & Collection Costs

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		1996 Rules Base	With OB&C Rule Change	With OB&C & Prop. GSF	With OB&C Rule Change	With OB&C & Prop. GSF	With OB&C Rule Change	With OB&C & Prop. GSF
57	532397 Scio Mutual Telephone Association	\$28,919	\$35,496	\$41,006	\$6,577	\$12,087	22.74%	41.80%
58	542332 Ponderosa	\$45,081	\$63,719	\$96,404	\$18,638	\$51,323	41.34%	113.85%
59	542338 Sierra Telephone Company, Inc.	\$218,169	\$234,764	\$345,822	\$16,595	\$127,653	7.61%	58.51%
60	542339 Siskiyou Telephone	\$0	\$0	\$0	\$0	\$0		
61	552220 Filer - Nevada	\$21,734	\$22,579	\$31,218	\$845	\$9,484	3.89%	43.64%
62	552233 Rural Telephone Company	\$11,149	\$11,788	\$19,428	\$639	\$8,279	5.73%	74.26%
63	552349 Churchill County	\$303,112	\$342,129	\$429,550	\$39,017	\$126,438	12.87%	41.71%
64	552351 Lincoln County Telephone	\$15,010	\$19,028	\$32,485	\$4,018	\$17,475	26.77%	116.42%
65	552356 Rio Virgin Telephone Co.	\$121,333	\$120,874	\$175,652	(\$459)	\$54,319	-0.38%	44.77%
66	613001 Arctic Slope Telephone Cooperative	\$11,866	\$29,542	\$40,969	\$17,676	\$29,103	148.96%	245.26%
67	613003 Bristol Bay Telephone Cooperative Inc.	\$29,382	\$40,068	\$54,766	\$10,686	\$25,384	36.37%	86.39%
68	613004 Bush-Tell Inc.	\$4,705	\$29,287	\$56,533	\$24,582	\$51,828	522.47%	1101.55%
69	613006 Copper Valley Telephone Cooperative	\$58,072	\$72,537	\$106,271	\$14,465	\$48,199	24.91%	83.00%
70	613007 Cordova Telephone Cooperative	\$26,699	\$38,489	\$60,942	\$11,790	\$34,243	44.16%	128.26%
71	613011 Interior Telephone Company Inc.	\$66,855	\$70,402	\$105,410	\$3,547	\$38,555	5.31%	57.67%
72	613016 Mukluk Telephone Company	\$19,706	\$30,938	\$40,628	\$11,232	\$20,922	57.00%	106.17%
73	613018 Nushagak Telephone Cooperative	\$29,987	\$29,987	\$36,045	\$0	\$6,058	0.00%	20.20%
74	613019 Otz Telephone Cooperative	\$22,778	\$58,638	\$75,434	\$35,860	\$52,656	157.43%	231.17%
75	613023 United Utilities	\$32,863	\$75,751	\$104,130	\$42,888	\$71,267	130.51%	216.86%
Total		\$3,631,458	\$4,620,581	\$6,188,249	\$989,123	\$2,556,791	27.24%	70.41%